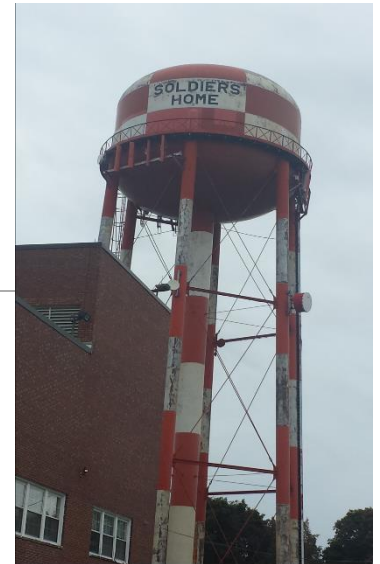


# City of Chelsea

OVERVIEW OF TAXES AND  
FISCAL YEAR 2016 FULL REVALUATION PROJECT  
MONDAY, OCTOBER 19, 2015



# Overview of Budget & Taxes

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Q: How much money does the City need to operate:

A: \$168,300,000

Revenue sources: appropriations, water & sewer costs, overlay reserve, changes from the State.

# How do we meet that need?

<b>Total Need:</b>	<b>\$168,200,000</b>
<u>Three possible sources</u>	
<b><i>State Aid</i></b>	\$80,500,000
<b><i>Receipts</i></b> (motor vehicle excise tax, room excise tax, meals tax, building permits, water & sewer fees)	\$37,600,000
<b><i>Local Property Taxes</i></b>	\$47,016,744
PLUS new tax growth (new buildings and additions)	\$1,200,000
<b>TOTAL</b>	\$166,316,744
<b>Difference to be met from Free Cash</b>	<b>\$(1,983,256)</b>

# Proposition 2 ½

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- We can only raise total property taxes by 2.5% each year. Last year maximum taxes that the City could raise was \$45,869,995.
- $\$45,869,995 \times 2.5\% = \$1,146,749$
- $\$45,869,995 + \$1,146,749 = \$47,016,744$ . This is the total amount of taxes that Chelsea can raise, exclusive of New Growth.
- HOW that \$47 million is allocated amongst individual taxpayers depends upon valuation of individual properties.

# How much of the increase do you pay?

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- Individual properties can have taxes that rise more than 2.5%.
- Your tax increase depends upon the changes in values from year to year.

# Why Did Chelsea Have a Full Revaluation for FY 2016?

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- Revaluations are mandatory. Without the DOR's approval, we would not be allowed to set a tax rate.
- Starting in FY 2005 the DOR required that all municipalities bring assessments to market level standards on an annual basis.
- Massachusetts law requires that the Department of Revenue “certify” that values are at the required “full and fair cash value” level every 3 years (2007, 2010, 2013, 2016)
- Pursuant to state statute, every 9 years cities and towns must complete a full inspection of all properties.

## What Are the Standards for Valuation Programs?

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- Assessors are required to value property at “Full and Fair Cash Value”, often called “Fair Market Value”.
- Massachusetts General Laws defines full and fair cash value as: “fair market value, which is the price a willing buyer and a willing seller would settle upon in an open market transaction, i.e., they expended a reasonable effort to determine a price and there are no special circumstances involved.”
- For residential properties, Fair Market value is measured by the analysis of properties that have actually sold in the community.
- The “as-of” date for FY16 values is January 1, 2015.
- Sales figures are those from *calendar* year 2014.

# Full Revaluation Summary

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- Sales analysis utilized sales from January 1, 2014 through December 31, 2014.
- Conducted approximately 5,000 property inspections including exterior measurements and interior inspections when permitted.
- Sent call back letters in English and Spanish as a second attempt to gain access for an interior inspection.
- Sent Income and Expense forms to all business owners for income analysis.
- Established new land values.
- Established new replacement cost base rates for all residential and commercial properties.



## How Did We Value Residential Properties?

- The valuation update of one family, two family, three family, and condominium properties (4,819 parcels, or 73% of the total) was conducted by our valuation consultant, Vision Appraisal.
- Approximately 119 sales of 1, 2 & 3 families and 124 condos were reviewed and analyzed to form the basis of new valuation tables.
- Vision sent 1951 call back letters and scheduled inspection appointments with those that responded.
- Analysis and calibration of the valuation tables was conducted using such variables as condo complex, neighborhood, use code, building style, price range, sale date, etc.
- Extensive fine tuning was conducted using property photographs stored on Chelsea's "Vision" software, Multiple Listing data, and by field review by assessing staff.

# What Has Happened to the Residential Market in Chelsea Over the Past Several Years?

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Use	Median Sale Price, Calendar Year	% Change 2012-2013	Median Sale Price, Calendar	% Change 2013-2014
1 Family	\$ 238,500	3.7%	\$ 285,000	19.5%
Condo	\$ 220,000	4.1%	\$ 225,000	2.3%
2 Family	\$ 300,000	11.1%	\$ 362,500	20.8%
3 Family	\$ 339,000	8.0%	\$ 400,000	17.9%

**Note:** for purposes of this study, we have assumed that sales of foreclosed properties from financial institutions to individual buyers are not considered “arms-length” transactions. Calendar year 2014 sales were utilized to determine fiscal year 2016 values.

# How Did We Update Values for Commercial, Industrial and Large Apartment Properties?

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- The City employed an outside consultant to assist in valuing C&I and large apartment properties for the 2016 revaluation.
- The Assessing Department mailed approximately 1046 requests for income and expense data, and received about 240 usable returns)
- For the 2016 value update program, our consultant:
  - Reviewed recent sales of commercial & industrial property in Chelsea
  - Reviewed and analyzed rental and expense data received from Chelsea property owners
  - Developed new valuation tables and guidelines used in the valuation of these properties
  - Conducted a field review of C&I and large residential properties
  - Where appropriate, used the Income Capitalization valuation method to appraise these properties

## How Did We Value **Personal Property**?

- The City employed an outside consultant, RRC Company, to revalue business personal property for the FY2016 revaluation;
- Personal property new growth of approximately \$14 million in valuation was captured;  
(NSTAR = \$6.1 MILLION, CHEP = 1.6 million)
- Personal Property is defined as assets that are not fixed permanently to realty. Property like equipment, machinery, inventory, etc., are examples of personal property. The taxable status of individual items of personal property is based on the form of ownership, as established by Massachusetts law.

<b>2014 Assessed Value</b>	<b>2015 Assessed Value</b>	<b>2016 Assessed Value</b>	<b>% Change 2015-2016</b>
<b>\$117,042,530</b>	<b>\$117,761,970</b>	<b>\$130,870,650</b>	<b>11.0%</b>

How Much Have Property Values Changed?  
The Following Table Summarizes the Median  
Changes in **Assessed** Values:

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Class	Description	% Change FY15-FY16
101	Single Family	16.80%
102	Condominium	8.90%
104	Two Family	10.90%
105	Three Family	17.30%
111	4- 8 Family	5.80%
112-125	9+ Family	7.80%
300	Commercial	1.80%
400	Industrial	9.20%

# How to Help Residential Property Owners

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1. We have split tax rate and we shift burden from Residential Property Owners to Commercial and Industrial Owners.
  - The maximum shift is 175%. Chelsea has historically adopted the maximum shift.
  - C & I properties pay 1.75 times more than they would pay with a single tax rate for all.
  - Council will be asked to vote on this before the tax rates are set.

# How to Help Residential Property Owners (continued)

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2. We provide a residential exemption of 20% to homeowners who live in Chelsea as their principal residence.
  - The 20% is based upon average value of all residential parcels.
  - In FY '16, we estimate 20% of the average residential value will be \$65,000. This is the amount that will be exempt from taxation.

# Setting the Rate

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- Tax rate is a formula which can be applied once we know the property values and how much total taxes can be raised.
- The values do not yet have final certification, so the numbers could change.
- But, assuming DOR has no major changes, and assuming that council will adopt maximum 175% shift to commercial & industrial properties, then the rate will be approximately \$14.25 per \$1,000.



# What Is Our Recent Tax Rate History?

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Fiscal Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016 (EST)
Residential	\$ 9.33	\$ 9.95	\$ 10.80	\$ 12.09	\$ 12.92	\$ 13.82	\$ 14.13	\$ 14.88	\$ 14.40	14.25
Commercial	\$ 19.54	\$ 20.76	\$ 23.96	\$ 29.00	\$ 30.60	\$ 32.92	\$ 34.20	\$ 36.04	\$ 33.45	32.22
Industrial	\$ 19.54	\$ 20.76	\$ 23.96	\$ 29.00	\$ 30.60	\$ 32.92	\$ 34.20	\$ 36.04	\$ 33.45	32.22
Personal Property	\$ 19.54	\$ 20.76	\$ 23.96	\$ 29.00	\$ 30.60	\$ 32.92	\$ 34.20	\$ 36.04	\$ 33.45	32.22
Res Exemption	\$ 680.16	\$ 708.81	\$ 662.80	\$ 606.69	\$ 660.59	\$ 685.20	\$ 717.61	\$ 758.57	\$ 853.79	939.7

\* Highest recent tax rate: 2000 \$14.65 (Res), \$39.73 (Commercial)



# Can Council Help? Yes.

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This year:

## Clause 17

- Adopt 17D: reduce timeframe to 5 years; entire property exempt from asset limits.
- Make \$175 subject to inflation
- Adopt 17E: Asset limit adjusted annual by inflation

# Can Council Help? Yes.

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This year:

## Clause 41

- Adopt options in 41C
  - Double the exemption to \$1,000
  - Reduce age to 65
  - Increase income limit to \$20,000/\$30,000
  - Increase asset limit to \$40,000/\$50,000
- Adopt 41D which increases Income & Asset limits by the rate of inflation.

# What Happens Next?

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On November 9, the annual Tax Rate Classification hearing is scheduled. At that meeting, the City Council will determine 2 items:

1. The percentage of the tax burden that will be shifted from the residential properties to the commercial, industrial, and personal property classes. The maximum shift is set by state law, and has been adopted by Council in past years.
2. The amount of the residential exemption. The residential exemption works to shift the tax burden only in the residential classes, by reducing the tax bill of the resident owner at the expense of the non resident owner.